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IMPLEMENTATION OF ARTICLE 11 (FINANCIAL MECHANISM) PARAS. 1-4

Addendum

Proposals on policies, programme priorities and eligibility criteria for the financial mechanism

Note by the Officers of Working Group II

I. INTRODUCTION

A. Mandate

1. At its seventh session, the Committee requested the Officers of Working Group II to submit to it at its eighth session proposals on policies, programme priorities and eligibility criteria for the financial mechanism (A/AC.237/31, para. 32(f)). The present note is submitted in response to that request.

2. In preparing this note, the Officers took into account relevant provisions of the Convention, comments made by delegations at the seventh session of the Committee and information on operations of the Global Environment Facility during its pilot phase.

B. Background

3. Article 11.1 of the Convention states that the financial mechanism "shall function under the guidance of and be accountable to the Conference of the Parties, which shall decide on its policies, programme priorities and eligibility criteria" related to the Convention. The financial mechanism is to provide financial resources on a grant or concessional basis, including for the transfer of technology.

4. Pursuant to Article 4.3, provision of finance by developed country Parties and other developed Parties included in Annex II is for the purposes of meeting:

(a) The agreed full costs incurred by developing country Parties in complying with their obligations under Article 12.1 to communicate information related to implementation; and

(b) The agreed full incremental costs of implementing measures that are covered by Article 4.1 and that are agreed between a developing country Party and the operating entity or entities of the financial mechanism.

5. According to Article 4.4, "the developed country Parties and other developed Parties included in Annex II shall also assist the developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting costs of adaptation to those adverse effects."

6. According to Article 4.5, "the developed country Parties and other developed Parties included in Annex II shall take all practicable steps to promote, facilitate and finance, as appropriate, the transfer of, or access to, environmentally sound technologies and know-how to other Parties, particularly developing country Parties, to enable them to implement the provisions of the Convention."

7. The above-mentioned activities are part of the implementation of the Convention. Policies, programme priorities and eligibility criteria, as well as the availability of new and additional resources for grant and concessional funding, will determine their sequence and the pace at which they will be undertaken. The pace should be sufficient to avoid a dangerous build-up in the concentration of greenhouse gases. At the same time, factors such as the constraints on the capacity to undertake various measures and the need to complete various preparatory planning and experimentation activities before undertaking full-scale investments will tend to slow down the pace at which measures can be implemented.

8. Policies, programme priorities and eligibility criteria should be seen as interrelated and mutually reinforcing. Policies decided by the Conference of the Parties regarding the financial mechanism will determine the framework within which the mechanism would operate. They would be supplemented by eligibility criteria and programme priorities. This note presents some initial considerations in this regard. Policies, programme priorities and eligibility criteria will have to be further elaborated as the need arises.

II. POLICIES

9. Articles of the Convention provide the basis for a number of general policies:

(a) The financial mechanism is to contribute to the objective of the Convention, stated in Article 2, guided, inter alia, by the Principles set out in Article 3. Its functioning should be consistent with the role of the Conference of the Parties, as defined in Article 7 of the Convention.

(b) In this context, the financial mechanism is to provide new and additional grant and concessional financing to developing country Parties to meet costs of activities implemented under Articles 4 and 12. The purposes of financing include transfer of technology. The financing of the transfer of, or access to, environmentally sound technologies and know-how is also specifically addressed in Article 4.5.

(c) For activities implemented by developing countries in complying with their obligations under Article 12.1, funding will be provided to meet the agreed full costs.

(d) For activities implemented by developing country Parties under Article 4.1, funding will be provided to meet the agreed full incremental costs.

(e) Funding will be provided to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to assist them in meeting costs of adaptation to those adverse effects.

(f) The amount of funding necessary and available through the financial mechanism for the implementation of the Convention will be determined in a predictable and identifiable manner, and will be periodically reviewed by the Conference of the Parties.

10. In order to give effect to the above, other policies will need to be developed by the Conference of the Parties regarding the following issues:

(a) Whether all categories of commitments set forth in Article 4 would be covered by the financial mechanism;

(b) Criteria for the agreement of the costs of activities implemented under Article 12.1;

(c) Methodology for determining agreed full incremental costs;

(d) Modalities for the reconsideration of funding decisions by an operating entity of the financial mechanism;

(e) Criteria to determine whether funding should be provided in the form of grants or in the form of concessional finance.

III. ELIGIBILITY CRITERIA

11. Eligibility criteria will refer to countries and to activities, should be derived from the Convention and should be applied through modalities in accordance with Article 11.3.

12. Regarding eligibility of countries, criteria could be:

(a) Upon entry into force of the Convention, only countries that are Parties to the Convention would be eligible to receive funding through the financial mechanism;

(b) Depending on the decision to be made by the Conference of the Parties with respect to the question raised in paragraph 10(a) above, developing country Parties that are particularly vulnerable to the adverse effects of climate change could be eligible to receive funding through the financial mechanism to meet costs of adaptation to these adverse effects;

(c) In the implementation of the commitments in Article 4, full consideration will be given, in accordance with Article 4.8, to the needs and concerns of:

(i) Small island countries;

(ii) Countries with low-lying coastal areas;

(iii) Countries with arid and semi-arid areas, forested areas and areas liable to forest decay;

(iv) Countries with areas prone to natural disasters;

(v) Countries with areas liable to drought and desertification;

(vi) Countries with areas of high urban atmospheric pollution;

(vii) Countries with areas with fragile ecosystems, including mountainous ecosystems;

(viii) Countries whose economies are highly dependent on income generated from the production, processing and export, and/or on consumption of fossil fuels and associated energy-intensive products;

(ix) Land-locked and transit countries;

and, in accordance with Article 4.9, to those of least developed countries.

(d) The Conference of the Parties will need to decide:

(i) Whether a level of per capita income at a given date should be used as an eligibility criterion for funding through the financial mechanism or for access to grants rather than concessional finance;

(ii) Whether countries that are not developing countries can be eligible for funding through the financial mechanism for specific purposes defined in Article 4.5, and, in that case, what levels of concessionality should be accessible to them;

(iii) If countries that are not developing countries are not eligible, whether the same channels could be utilized to direct other funds towards activities in such countries.

In the latter two cases, funds for activities in developing country Parties should remain distinct, predictable and identifiable.

13. Regarding eligibility of activities, Article 4.1 of the Convention provides an enumeration of activities to be implemented under the Convention. An activity should be considered eligible if it contributes to the following:

(a) The preparation and publication of national inventories of anthropogenic emissions by sources and removals by sinks of all greenhouse gases not controlled by the Montreal Protocol on Substances that Deplete the Ozone Layer, using comparable methodologies to be agreed upon by the Conference of the Parties;

(b) The preparation, implementation and publication of national and, where appropriate, regional programmes containing measures to mitigate climate change by addressing anthropogenic emissions by sources and removals by sinks of all greenhouse gases not controlled by the Montreal Protocol, and measures to facilitate adequate adaptation to climate change;

(c) The development, application and diffusion, including transfer, of technologies, practices and processes that control, reduce or prevent anthropogenic emissions of greenhouse gases not controlled by the Montreal Protocol in all relevant sectors, including the energy, transport, industry, agriculture, forestry and waste management sectors;

(d) The sustainable management, conservation and enhancement, as appropriate, of sinks and reservoirs of all greenhouse gases not controlled by the Montreal Protocol, including biomass, forests and oceans as well as other terrestrial, coastal and marine ecosystems;

(e) The preparation for adaptation to the impacts of climate change; the development and elaboration of appropriate and integrated plans for coastal zone management, water resources and agriculture, and for the protection and rehabilitation of areas, particularly in Africa, affected by drought and desertification, as well as floods;

(f) Assistance to countries in taking climate change considerations into account, to the extent feasible, in their relevant social, economic and environmental policies and actions, and employing appropriate methods, for example, impact assessments, formulated and determined nationally, with a view to minimizing adverse effects on the economy, on public health and on the quality of the environment, of projects or measures undertaken by them to mitigate or adapt to climate change;

(g) Scientific, technological, technical, socio-economic and other research, systematic observation and development of data archives related to the climate system and intended to further the understanding and to reduce or eliminate the remaining uncertainties regarding the causes, effects, magnitude and timing of climate change and the economic and social consequences of various response strategies, consistent with Article 5;

(h) Exchange of relevant scientific, technological, technical, socio-economic and legal information related to the climate system and climate change, and to the economic and social consequences of various response strategies;

(i) Education, training and public awareness related to climate change to encourage the widest participation in this process, including that of non-governmental organizations, consistent with Article 6; and

(j) Communication to the Conference of the Parties of information related to implementation, in accordance with Article 12.

14. In addition to the above, it will need to be decided whether activities that contribute to adaptation to the adverse effects of climate change in developing country Parties that are particularly vulnerable to these adverse effects would also be considered eligible, consistent with the question raised in paragraph 10(a) above.

IV. PROGRAMME PRIORITIES

15. To implement activities that satisfy eligibility criteria, programme priorities should be followed in order to enhance the efficiency of resource utilization in the implementation of the Convention.

16. Priority should be given to the funding of costs incurred by developing country Parties in complying with their obligations under Article 12.1 regarding communication of information.

17. Regarding other activities, priorities will need to evolve over time. In the initial period emphasis should be placed on enabling activities undertaken by developing country Parties, such as planning, capacity building, training, research, and education, that will make it possible to subsequently implement larger scale mitigation activities. Later, emphasis could be shifted towards such mitigation activities. Activities in preparation for the adaptation to the impact of climate change should be undertaken as a matter of precaution. At a later stage, full-scale adaptation activities may also be needed if adverse impacts of climate change require it.

18. The following programme priorities with regard to mitigation measures may be envisaged:

(a) Priorities among projects should take into account:

(i) The importance of carbon dioxide emissions arising from the combustion of fossil fuels and land-use changes and of methane emissions induced by human activities;

(ii) The cost effectiveness of the technology deployed to reduce greenhouse gas emissions.

(b) Such priorities will lead to emphasis on:

(i) Reduction of the emissions intensity of energy production through the promotion of technologies applicable to new and renewable sources of energy;

(ii) Improvements of end-use efficiency in a number of energy consuming sectors;

(iii) Shifts of transportation modes and urban projects, aiming at a reduction in fossil fuel consumption needs;

(iv) Shifts to fuels with low greenhouse gas emissions;

(v) Reductions in emissions other than carbon dioxide, such as methane;

(vi) Other activities including combating deforestation and supporting reforestation;

(vii) The promotion of promising technologies for reducing greenhouse gas emissions and the preference for replicable projects.

(c) Activities funded under the Convention should include an appropriate mix of projects that are directly economic because they generate a combination of global and local benefits that exceed costs, and of projects that, while not being economic on their own, can promote market development for promising technologies, reduce market entry costs, generate economies of scale, disseminate information or shift priorities through demonstration effects. Lessons in this regard should be drawn from experience acquired within and outside the United Nations system.

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